

ASSEMBLY BILL

No. 55

Introduced by Assembly Member Mullin

December 6, 2004

An act to add Section 22955.1 to, and to repeal and add Section 22954.1 of, the Education Code, relating to state teachers' retirement, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

AB 55, as introduced, Mullin. State teachers' retirement: appropriations.

(1) Under the existing Teachers' Retirement Law, a continuous appropriation equal to 2.5% of creditable compensation, as specified, is made annually from the General Fund for transfer to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund to fund purchase power protection payments to retired members of the Defined Benefit Program of the State Teachers' Retirement System. Existing law decreases that appropriation by \$500,000,000 for the 2003–04 fiscal year.

This bill would provide that a certain percentage, as adjusted by the Teachers' Retirement Board, of that creditable compensation shall be credited to the Supplemental Benefit Maintenance Account each year for 6 years commencing July 1, 2005.

(2) Existing law requires the Teachers' Retirement Board, beginning in 2006 and every 4 years thereafter, to report to the Legislature and the Department of Finance regarding the ability of the retirement system to pay purchase power protection payments in each fiscal year until 2036 and appropriates funds, as determined by the actuary and certified by the Director of Finance, as necessary to

enable the Teachers' Retirement System to make those payments, as specified, until June 30, 2036.

This bill would delete that requirement.

(3) Under the Teachers' Retirement Law, on and after July 1, 2003, a continuous appropriation equal to 2.541 of creditable compensation, as specified, is to be made annually from the General Fund to the Teachers' Retirement Fund.

This bill would make an additional continuous appropriation from the General Fund to the Teachers' Retirement Fund on July 1, 2005, and each July 1, thereafter to July 1, 2010, inclusive, in an amount equal to a percentage of creditable compensation for a certain period, as specified. The bill would also make an additional appropriation from the General Fund to the Teachers' Retirement Fund on July 1, 2010, based on the average annual rate of return on investment of funds in the Teachers' Retirement Fund, according to a specified schedule.

(4) The bill would include a statement of legislative intent regarding purchasing power protection for retired educators.

(5) The bill would declare that it is to take effect immediately as an urgency statute.

Vote: $\frac{2}{3}$. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. It is the intent of the Legislature to restore over
2 time the funding provided under current law, in order to provide
3 purchasing power protection for retired pensioners in CalSTRS,
4 so that the 63,000 retired educators, who are mostly women with
5 an average age of 82 years, can receive the level of purchasing
6 power protection provided for by law.
7 SEC. 2. Section 22954.1 of the Education Code is
8 repealed. ~~22954.1. (a) Beginning in 2006, and every four years~~
9 ~~thereafter, the board shall, based on an actuarial valuation~~
10 ~~approved by the board, report to the Legislature and the Director~~
11 ~~of Finance regarding the anticipated ability of the system to~~
12 ~~provide the purchasing power protection contemplated by~~
13 ~~Chapter 840 of the Statutes of 2001 during each year until June~~
14 ~~30, 2036. The actuarial valuation shall take into consideration all~~
15 ~~expected contributions to the Supplemental Benefit Maintenance~~

1 ~~Account, expected expenditures from the account, and expected~~
2 ~~investment returns.~~

3 ~~(b) On July 30 of the calendar year following any calendar~~
4 ~~year in which the board, as a result of the quadrennial valuation~~
5 ~~required by subdivision (a), reports that the funds in the~~
6 ~~Supplemental Benefit Maintenance Account will be insufficient~~
7 ~~in any fiscal year before July 1, 2036, to provide the purchasing~~
8 ~~power protection contemplated by Chapter 840 of the Statutes of~~
9 ~~2001, there is hereby appropriated from the General Fund to the~~
10 ~~Controller the amount necessary to provide that purchasing~~
11 ~~power protection, as determined by the actuary, taking into~~
12 ~~consideration all expected contributions to the Supplemental~~
13 ~~Benefit Maintenance Account, expected expenditures from the~~
14 ~~account, and expected investment returns, and subject to the~~
15 ~~limitation in subdivision (c). The amount appropriated pursuant~~
16 ~~to this section shall be transferred by the Controller to the~~
17 ~~Supplemental Benefit Maintenance Account upon certification of~~
18 ~~the amount by the Director of Finance.~~

19 ~~(c) The aggregate amount of funds appropriated pursuant to~~
20 ~~subdivision (b) is limited to an amount equal to five hundred~~
21 ~~million dollars (\$500,000,000) adjusted by the actual rate of~~
22 ~~return on funds in the Supplemental Benefit Maintenance~~
23 ~~Account from July 1, 2003, after taking into account any amount~~
24 ~~previously appropriated pursuant to subdivision (b). In~~
25 ~~calculating this limit, the sum of five hundred million dollars~~
26 ~~(\$500,000,000) shall be treated as an initial principal amount,~~
27 ~~and this amount shall be adjusted at the end of each fiscal year~~
28 ~~based on the actual investment return of the Supplemental~~
29 ~~Benefit Maintenance Account during the preceding fiscal year~~
30 ~~and shall be reduced by any amounts appropriated pursuant to~~
31 ~~subdivision (b) as of the date of the transfer.~~

32 ~~(d) This section shall become inoperative on July 1, 2036, and,~~
33 ~~as of January 1, 2037, is repealed, unless a later enacted statute~~
34 ~~that is enacted before January 1, 2037, deletes or extends the~~
35 ~~dates on which it becomes inoperative and is repealed.~~

36 SEC. 3. Section 22954.1 is added to the Education Code, to
37 read:

38 22954.1. On July 1, 2005, and each July 1, thereafter to July
39 1, 2011, inclusive, an amount equal to 0.3671 percent of the total
40 of the creditable compensation of the fiscal year ending in the

1 immediately preceding calendar year upon which members'
2 contributions are based shall be credited to the Supplemental
3 Benefit Maintenance Account. This rate shall be adjusted by the
4 board to reflect any changes in the rate of interest credited to
5 accumulated reserves pursuant to subdivision (b) of Section
6 22216.

7 SEC. 4. Section 22955.1 is added to the Education Code, to
8 read:

9 22955.1. (a) In addition to the amount appropriated pursuant
10 to Section 22955, and notwithstanding Section 13340 of the
11 Government Code, on July 1, 2005, and each July 1, thereafter,
12 to July 1, 2010, inclusive, a continuous appropriation is hereby
13 made from the General Fund to the Controller for transfer to the
14 Teachers' Retirement Fund. The total amount of each
15 appropriation made pursuant to this section shall be equal to the
16 percentage of the total of the creditable compensation of the
17 fiscal year ending in the immediately preceding calendar year
18 upon which members' contributions are based, in accordance
19 with the following schedule:

Date of Payment	Percentage
On July 1, 2005.....	0.0858 percent
On July 1, 2006.....	0.0823 percent
On July 1, 2007.....	0.0790 percent
On July 1, 2008.....	0.0757 percent
On July 1, 2009.....	0.0727 percent
On July 1, 2010.....	0.0697 percent

28
29 (b) (1) In addition to the amount appropriated pursuant to
30 Section 22955, there is hereby appropriated on July 1, 2010, from
31 the General Fund to the Controller, for transfer to the Teachers'
32 Retirement Fund, an amount equal to the percentage of the total
33 of the creditable compensation of the fiscal year ending in the
34 immediately preceding calendar year upon which members'
35 contributions are based in accordance with the following
36 schedule, based on the actual average annual rate of return on the
37 investment of funds in the Teachers' Retirement Fund from July
38 1, 2003, to June 30, 2010, inclusive, as reported by the board:

1	If the average annual rate of return is less than 3.5	
2	percent.....	1.6732 percent
3	If the average annual rate of return is at least 3.5	
4	percent but less than	1.8743 percent
5	5 percent.....	
6	If the average annual rate of return is at least 5	
7	percent but less than	2.0943 percent
8	6.5 percent.....	
9	If the average annual rate of return is at least 6.5	
10	percent but less than	2.3347 percent
11	8 percent.....	
12	If the average annual rate of return is at least 8	
13	percent but less than	2.5970 percent
14	9.5 percent.....	
15	If the average annual rate of return is at least 9.5	
16	percent but less than	2.8828 percent
17	11 percent.....	
18	If the average annual rate of return is equal to or	
19	greater than 11 percent.....	3.1937 percent

20

21 (2) The amount transferred to the Teachers' Retirement Fund

22 on July 1, 2010, pursuant to paragraph (1) shall be based on the

23 estimated average annual rate of return in the investment of funds

24 in the Teachers' Retirement Fund from July 1, 2003, to June 30,

25 2010, inclusive, projected by the board from actual investment

26 earnings to the Teachers' Retirement Fund through April 30,

27 2010, inclusive. On or before September 1, 2010, the board shall

28 report to the Director of Finance and the Controller the actual

29 average annual rate of return on the investment of funds in the

30 Teachers' Retirement Fund from July 1, 2003, to June 30, 2010,

31 inclusive. Any additional amount appropriated pursuant to

32 paragraph (1) shall be transferred to the Teachers' Retirement

33 Fund within five calendar days of the actual average annual rate

34 of return reported by the board to the Director of Finance and the

35 Controller. If the actual average annual rate of return on the

36 investment of funds in the Teachers' Retirement Fund from July

37 1, 2003, to June 30, 2010, inclusive, is less than the amount

38 estimated as of July 1, 2010, any excess amount transferred to the

39 Teachers' Retirement Fund on July 1, 2010, shall be treated as a

40 credit for the amount appropriated pursuant to Section 22955 for

1 transfer to the Teachers' Retirement Fund during the 2010–11
2 fiscal year.

3 (c) The Legislature reserves the right to amend this section to
4 increase the contribution rate prior to July 1, 2010, in order to
5 provide an appropriation that is actuarially equivalent to the
6 appropriation made in subdivisions (a) and (b), as determined by
7 the board in an actuarial analysis requested by the board. Any
8 resulting change in the appropriation shall be in lieu of any
9 appropriation made by this section that has not yet been
10 transferred to the Teachers' Retirement Fund.

11 SEC. 5. This act is an urgency statute necessary for the
12 immediate preservation of the public peace, health, or safety
13 within the meaning of Article IV of the Constitution and shall go
14 into immediate effect. The facts constituting the necessity are:

15 In order to address the fiscal crisis facing the state in the
16 2005–06 fiscal year, it is necessary that this act take effect
17 immediately.